joel goodman.us

COMPARATIVE PRODUCTION COST EQUALIZING TARIFF

Preface to Proposal

Foreign Labor - Dismantling America

The recent bundled assets / derivatives fraud on Wall Street was not the beginning of the decline of American Industry; it is just the latest and most singular event hammering away at a nation already on the ropes because of years of assault by Federal trade policies. The lack of economic growth in the US (and Europe) is not about bankers and financiers holding onto their money. That is not what is preventing job creation in the United States. The American banks that have survived the Wall Street debacle are doing just fine, earning interest on the reserve dollars given to them by the Federal Reserve. The Wall Street financiers are doing just fine once again with profits garnered from the large Wall Street swings, even getting to keep profits from the massive swindles that have left economies around the world on their knees. The lack of economic growth is a result of too many in America having been tossed out of their homes, are now homeless, or on the verge of disaster without a job. Too many Americans no longer have sufficient disposable income to purchase anything other than necessities. Too many in the Middle Class, which is truly the engine of new businesses, are close to being broke. They have very little to give. The wealthy investment class has already invested its money. They invested it in the Far East and Mexico, and would have been investing their money in South Korea, Panama and Colombia had it not been for a change in the Administration in Washington DC. The United States worker has, to a great degree, become superfluous to the wealthy industrial investor. The American industrial worker has become a hindrance to them; not because the American worker has become unproductive; not because the American worker is not still showing up for work in small shops and businesses all over the country that have been able to hold on; not because the American worker prevents them from earning profits, but because the American workers' demand for a greater piece of the pie and a generally better standard of living prevents the wealthy industrial investment class from maximizing their profits, literally strangling every cent they can out of every dollar invested.

The profits that can be earned by exploiting labor in foreign countries cannot be duplicated in the US. So, a purchase at Wal-Mart with a government stimulus check may help Wal-Mart, but it also helps the investor who backed the factory in China from which Wal-Mart gets its goods. Americans no longer have as many opportunities to purchase an American made product – as there are fewer and fewer of them, and they cost more than struggling workers can comfortably afford. Of course, if the American worker had more and better paying jobs, as he used to have, he could afford the more expensive American made products. Henry Ford explained why he paid his workers as well as he did. "I pay them well so that they can afford to buy the cars they produce.... and it is good for the economy." We seem to have lost something since the days of the man who revolutionized American Industry.

Higher wages for American workers continued through the 1950's and 1960's – up until the opening of China to American and European manufacturers. In the 1980's many small and medium sized American companies, while producing yearly profits, had relatively low stock valuations. Stock prices had not kept up with the slow rise of inflation since the late Fifties, and many companies were severely undervalued. It soon became fashionable for corporate raiders to buy American companies that had tangible assets such as factories, buildings, real estate, etc., and either downsize the company's operations and fire workers or liquidate the company entirely – often selling the equipment to an emerging country. The American factory was worth more dismantled than it was if it kept operating; albeit that many workers had decent salaries and good livelihoods from their jobs. In many instances companies had been producing items and supporting hundreds of workers for several generations. But, while the company's pension fund and the companies manufacturing equipment and pay scale had been able to support the hundreds of workers, and would have continued to support those workers, Wall Street investors realized that the book value of the company was worth more on a short term basis if the company were dismantled and its parts sold. So, many companies, companies that eked out profits year after year, producing those fine American made products, were bought out by corporate raiders and the companies dismantled and sold. Of course, once the company was dismantled, the workers were fired, the equipment was sent off shore and began producing the same product at a much lower cost. The investors had made a literal killing. They killed a company. They killed the livelihood of hundreds of workers. They had, though, made a quick return on their investment. They saw a company ripe for the taking. They took the profits and they placed their money overseas.

American Re-Emergence

The United States must rebuild its economic engine. There was no reason for American manufacturing to have re-located outside of the US other than American based Corporations wanting absolutely maximized profits. The concept of greater profit is fine, but so is the concept of America surviving. And, if America is to survive it must be able to create jobs in the United States – not merely retail or service industry jobs. So, certain questions must be asked. How much profit is necessary on an investment? And, what is the expected term of an investment over which profits should be realized? And, how much of the profit should be shared by the American worker? According to *Executive Excess 2008*, the 15th Annual CEO Compensation Survey from the Institute for Policy Studies and United for a Fair Economy, the CEOs' of S&P 500 firms compensation as a multiple of the average worker's pay has risen from 50 times greater than the ordinary worker to 350 times greater in the period from 1960 - 2007. The CEO's at Dow Jones companies earn 500 times greater. At the same time production workers' pay increased a mere 4.3%, while minimum wage earners pay fell 9.3 % below inflation. The average CEO's pay is a mere 100 times the ordinary worker. The AFL/CIO website tracks the average compensation of all CEO's at $3,900,000.00 compared to the median pay of workers to be $36,000.00.

The answer to "redistributing" the wealth is not necessarily more taxes on the wealthy, but taxing more equally, in a more fair progressive way and dissuading investments that produce no jobs. (A new taxing proposal is discussed in a separate paper.) The massive amount of trading on Wall Street does very little if anything in the way of job creation. As noted, the tumultuous trading on Wall Street adds nothing to the overall economy. This has been graphically evidenced over the past ten years when Wall Street financiers have made tremendous amounts of money while the American economy has sunk precipitously. The way for the American worker to share in the profits is to bring higher paying jobs back into the United States.

American manufacturing

Bringing manufacturing back to the United States will not stop economic growth in other parts of the world. America will always import, and the healthier the United States economy is, the more it will import; and economic growth around the world cannot be built on the broken backs of the American worker. Currently, the American public pays more for its military and security establishment and its foreign bribes in the form of foreign aid than it does for almost anything else. Were a substantial realignment of the productivity that is currently being expended in colonial warfare, fighting over various countries' natural resources, instead used for investment in underdeveloped countries' infrastructures, true worldwide prosperity would occur without the need to bleed the American worker. A realignment of investment into constructive endeavors rather than simple destruction would utilize American expertise and ingenuity in manufacturing and construction and create American manufacturing jobs to support the worldwide development.

There is a diminishing window of opportunity in which American jobs will have relevance. Once the Chinese consumer market surpasses the American market, China will become self sufficient, and will rely less on American manufactured goods. Once that change occurs, it will be irreversible.

"The Big Print Giveth and the Small Print Taketh Away"

One must be astounded that at the same time that the President of the United States toured the country promoting his jobs bill, which requires a massive expenditure that would add more debt to the already over burdened US budget, he also signed into law a long delayed trade agreement with Colombia, Panama and South Korea; legislation that includes a provision for compensation if jobs are lost to the trading partners as a result of these trade agreements, or as it is phrased in Washington fancy speak, " a bill to extend aid to workers displaced by foreign competition." "Displaced by foreign competition" is less visceral than "losing your job because your company moved its production off shore where labor is cheap and working conditions are below standard" - or in polite short-talk, "outsourcing" To me the legislation is more reminiscent of a Tom Wait's' phrase, "The big print giveth and the small print taketh away."

(This very same trade policy and similar legislation is being repeated as of June 2015.)

According to the Office of the US Trade Agreement Representative,   " The Colombia part of the trade deal, over 80 percent of U.S. exports of consumer and industrial products to Colombia will become duty free immediately, with remaining tariffs phased out over 10 years. The U.S. – Colombia Trade Promotion Agreement (TPA) will support more American jobs, increase U.S. exports, and enhance U.S. competitiveness."

The White House, Office of the Press Secretary,   released the following:
"On Friday, October 21st, President Obama will sign the Korea, Panama and Colombia Free Trade Agreements and the renewal of Trade Adjustment Assistance for workers in the Oval Office before making remarks in the Rose Garden. In his remarks, President Obama will underscore that these trade agreements will significantly boost American exports, support tens of thousands of American jobs and protect labor rights, the environment and intellectual property. President Obama will be joined in the Rose Garden by business and labor leaders as well as workers who will benefit from these bills."

So, why is labor opposed? Part of the reason, and not the only part, is that Colombia has failed to protect Union Organizing. Quite simply, Union Organizers are murdered in Colombia; which means that working conditions and wages are less than what they could and should be. Which means that labor in

Colombia will be cheaper than in the United States; much the same as it is cheaper in every country with whom the United States has signed a trade agreement. Additionally, discounting the few industrialized countries with whom we have trade agreements, working conditions and wages are also lower in every country with whom we have recently signed a trade agreement. Besides wages and working conditions, none of the countries with whom we have recently signed trade agreements have any substantial anti-pollution standards or in general have any substantial environmental protection regulations. So, what is euphemistically called Free Trade is not free. It is not free trade because the American worker pays a high price for deals that mainly benefit foreign workers and corporate executives. Free trade exists when all players play with the same rules on a level playing field.

Contrary to what right wing talk radio and the majority of the 2012 crop of Republican presidential candidates will have you believe, manufacturing has not fled from this country solely because of high labor costs. American workers receive far less salary and remuneration and benefits and bonuses than executives and board members. Stock brokers who buy and sell stock shares and bonds in the companies for whom the American worker works earn more than the workers. It is not solely that American labor is too expensive, it is that foreign labor in favored nations is very cheap and regulations are few and far between. It is not that American companies cannot make a profit manufacturing in the United States. It is that there is much profit taking in the process of manufacturing that adds to the cost of the product. It is that company executives and large stock holders cannot make as much profit by paying good salaries. It is not about profit. It is about more profit.

Heads They Win Tails You Lose.

In the midst of a severe recession, a depression to many Americans, that has left millions without jobs, the US Congress passed an agreement that would lower or eliminate tariffs that American exporters face in the three Colombia, South Korea and Panama. And, if the trade bill will protect American industries and jobs, why did the Congress also feel it necessary to pass the bill that will extend aid to workers displaced by foreign competition? The President is well aware that these bills will threaten American Jobs, because he demanded that the worker aid bill be part of the trade package. Obviously , the President and the congress prefer that certain American companies prosper and then, in turn, have the US Treasury pay displaced / unemployed workers some sort of compensation after they have lost their jobs. Putting kickbacks, political points and corruption aside, it makes no sense to sponsor programs that will cost Americans their jobs and then compensate them with Federal dollars once they are unemployed. Heads they win tails we lose. The US Treasury has become a slush fund to reimburse the wealthy investor when he commits illegal business and bankrupts the world, and then again to hand out pittances to American workers when the American companies have moved their jobs off shore. Programs to aid displaced workers due to jobs lost because of free trade deals is corporate welfare paid for by the American public. First the Congress helps American corporations secure cheaper manufacturing situations and then uses taxpayer money to help those workers whose jobs the Congress has just helped send overseas. Heads they win tails we lose.

In October 2011, the Associated Press reported that the administration said that the deal with South Korea, America's seventh largest trading partner, will support 70,000 American jobs. Also reported was that "Many among Obama's core supporters, including organized labor and Democrats from areas hit hard by foreign competition, were unhappy that the White House was espousing the benefits of free trade. Rep. Maxine Waters, D-CA said, “I find it deeply disturbing that the United States Congress is even considering a free trade agreement with a country (Colombia) that holds the world record for assassinations of trade unionists...”

It was with this backdrop of dissatisfaction that "the White House demanded linking the trade bills to the extension of a Kennedy-era program that helps workers displaced by foreign competition with retraining and financial aid " The question that must be asked of our elected officials is : Where are retrained workers going to find work in a shrinking labor market?

One need go no farther than your closest "Occupy" protest to know that there is great discontent with the current state of economic dystopia, which may be laid at the door steps of stock market manipulation and trade agreements that serve as manufacturing support for favored multinational corporations. The protestors' anger may be reported in the mainstream press as unfocused, but the elements of what has caused the anger are being expressed cogently elsewhere, as for example on the web.

The following information was posted on economyincrisis.org, under the heading "Opposition to Free Trade Mounts / Economy in Crisis," "A Pew Research poll conducted after the 2010 elections, a plurality of Americans now believe that NAFTA and the WTO have had a negative impact on America." A web poster on change.org/petitions/end-free-trade-now, cogently said what needs to be said, "Because of MFN, WTO, NAFTA and CAFTA, all Free Trade Legislation, we have high unemployment while the Corporations are making record profits at the Cost of our Hard Working American jobs. Until we end all Free Trade Legislation our Country is on it's way to Feudalism..... All of this Free Trade Legislation was passed and then signed knowing that it would be the outsourcing of Hard Working American jobs.....I am fed up with my intelligence being insulted....'End Free Trade Now' should be a Slogan used by the Party that wants to show "We the People" that we get it and we do not want Free Trade anymore. "

The current tariff arrangements are a reflection of a corrupt colonial foreign policy, which at its core is structured to favor certain corporate interests; and only incidentally reflects the true security needs of the United States. One need look no farther than what was done in Iran in 1953, and how US and British and French oil interests in Iraq, beginning in 1917, during the First World War, and continuing to this day, have shaped the Middle East, and developed into a tangled political and military mess that is robbing the blood and treasure from US citizens. At the outset of the writing of this book, the United States, with all the 'to do' about beginning a pullout from the Middle East is slowly entrenching itself in Africa. It would be no exaggeration to say that if the US had a much more honest foreign policy, based upon the true security needs of the US, and not put into place mostly to support business interests worldwide, US tariffs would be doing what they are supposed to be doing, generating money for the treasury and protecting America workers by protecting their jobs.

The Problem and Solution

To bring jobs back to the United States, American manufacturing must be able to compete fairly. American labor cannot compete with other nations that support their industries with subsidies, suppress wages, fail to supervise working conditions, ignore concerns for environmental issues relating to their manufacturing, allow goods to be manufactured at prices that a well paid worker in an older economy cannot conscionably match, and manipulate their currencies to promote exports at the expense of the workers in the importing company.

The Blame is Two Fold:

1) The first part of the blame must be ascribed to the corporations that seek not profit, but seek much more profit. It is greed that runs most of the manufacturing decisions being made in the corporate board rooms of multi-lateral companies today, not long term productivity and a concern for the corporation's labor force.

2) The second part of the blame must be ascribed to the politicians who have succumbed to the multi-lateral corporate interests and have entered into international trade agreements that have led to the dismantling of the older economies around the world. One cannot force a company to behave in any prescribed manner, detailing where it can manufacture its products; but then again, it is unfair to give a company unfair advantage by allowing it freely to import products off shore that were produced under conditions that would not be allowed in the United States. There is a discernible distinction between Capitalism and what is now called "Crony Capitalism," "Friendly Fascism," "Trickle Down Economics" - or in reality, "Fascism." It is evident to most, but admittedly not all, that Americans do not want to

remove all manufacturing restrictions and safeguards in the United States; that being the case, we should not allow products that have been produced under much less scrutiny elsewhere free entrée in our country.

Jobs Solution

Comparative Production Cost Equalizing Tariff

The first policy that must be enacted is to establish a Comparative Equalizing Tariff. This tariff would rate an importing nation's manufacturing and financial practices in six categories.

Production Cost Comparison Scale

A) Manipulation of their currency to artificially reduce the cost of manufactured items intended for export.
B) Government subsidies for products intended for export,
C) The wage level of workers.
D) The amount of attention to environmental protection and pollution in manufacturing,
E) Working conditions.
F) The general level of health care and the type of health care system in their country,

Each imported product would be judged on a scoring system that would rate the product against the six criteria listed above, and the decision as to how much, if any, tariff to be levied would be based upon the imported products score.

For example, when rated on the Production Cost Comparison Scale some nations might be on a par with the US, with no import tariffs being levied, in that their standard of living and production controls are equal to or higher than ours. A country like China might rate poorly on the equalization scale, and their products might be heavily taxed, elevating the cost of their products to a level almost on par with the cost of that same product manufactured in the US.

The result of implementing a Comparative Equalizing Tariff would lead to true competition on a leveled playing field. The effect on the market place would lead competing nations wanting entrée to an established market to produce a superior product at a competitive price. American companies would have to choose to pay a higher tariff on their goods, work with the manufacturing country to raise their standards so as to lower the import tariff, or return their production to the United States or to another developed country. If a manufacturer chose to continue to produce in a foreign nation and be met with a negative tariff score, at least a tariff will be collected on their products, adding to the coffers of the US Treasury; allowing the US to lower taxes on its citizens.

Tariffs still exist in the United States. Currently we tax imported autos at 2.5% and imported trucks at 25%. The concept of taxing imports based upon certain particular criteria already exists under current US tariff law. For example If the vehicle being imported has a gas mileage rating of less than 22.5 miles per gallon, a gas guzzler tax is applied to the vehicle in addition to the import tariff.

An import tariff, even the one that exists on automobiles, does not necessarily kill foreign production as evidenced by the ability of foreign producers to penetrate established markets. This was demonstrated by Japanese automobile manufacturers when they overtook a lethargic and short sighted Detroit. The Japanese automakers, themselves part of an established economy with a high standard of living, were able to produce a competitive vehicle at a competitive price through the innovation of enhanced manufacturing techniques and market amenable products.

Short of enlightened legislation, the established economies will sink. The giant corporations that they spawned will survive; but will survive as basically foreign corporations, dumping cheap products into newly impoverished nations. Attempting to aid developing countries and encourage new centers of production in order to raise the overall standard of living of the world is a noble goal; manufacturing in cheap labor markets solely for the benefit of various corporate interests at the expense of the workers in their home nation is criminal. American corporations will have to decide where they want to make their home. That of course is their choice. The bottom line for them is that their products manufactured overseas will be judged against the US's Comparative Equalizing Tariff.